



CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

February 27, 1998

H.R. 3130 **Child Support Performance and Incentive Act of 1998**

*As ordered reported by the House Committee on Ways and Means
on February 25, 1998.*

SUMMARY

H.R. 3130, the Child Support Performance and Incentive Act of 1998, would make several changes to the child support enforcement program. It would establish an alternative penalty procedure for states that fail to operate a single statewide automated child support enforcement system, allow the federal government to fund alternative configurations of automated systems, change the formula for awarding incentive payments to states, and lower the penalties on states that delay adoptions across state lines. CBO estimates the bill would have no net budgetary effect over the 1999-2003 period--it would save \$200 million from 1999 to 2001 and cost \$200 million in the following two years.

H.R. 3130 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act of 1995 (UMRA). The bill includes other provisions that will generate both costs and savings to states, but these amounts would net to zero over the 1999-2003 period.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 3130 is shown in the following table.

	By Fiscal Year, in Millions of Dollars				
	1999	2000	2001	2002	2003
CHANGES IN DIRECT SPENDING					
Alternate Penalty Procedure					
Estimated Budget Authority	-105	-65	-40	40	160
Estimated Outlays	-105	-65	-40	40	160
Authority to Waive Statewide Computer System Requirement					
Estimated Budget Authority	5	5	0	0	0
Estimated Outlays	5	5	0	0	0
Total					
Estimated Budget Authority	-100	-60	-40	40	160
Estimated Outlays	-100	-60	-40	40	160

The costs of this legislation fall within budget function 600 (Income Security).

BASIS OF ESTIMATE

Alternative Penalty Procedure

Current law requires states to have implemented, by October 1, 1997, statewide automated systems to be used for managing child support cases, monitoring compliance, initiating enforcement actions, and reporting on performance. Many states failed to meet that deadline. This bill would change the way the Secretary of Health and Human Services (HHS) would collect penalties from states that do not meet the requirement. CBO estimates that the new penalty structure would reduce federal outlays by \$10 million over the 1999-2003 period and would have no effect thereafter.

Current Law. The child support enforcement program helps families collect child support payments from absent parents. Federal and state governments jointly fund the program, with the federal government paying 66 percent of the administrative costs. Federal spending for such administrative costs totaled over \$2 billion for all states in 1997. The program is operated by states, but the federal government sets many of the program's requirements, including a requirement to operate a statewide automated child support system.

The HHS Secretary audits states every few years to ensure they are in compliance with program requirements. If a state is not in compliance and remains out of compliance for more than a year, the Secretary is required to charge the state a penalty. The initial penalty

is 1 or 2 percent of the state's funding under the Temporary Assistance for Needy Families (TANF) program--a \$16.5 billion grant program. The penalty rises for each year of continued non-compliance up to 5 percent of the TANF grant.

In January 1998, the Secretary sent letters to sixteen states informing them that they were not in compliance with the automated system requirement. According to HHS staff, the majority of these states will probably complete their automated system within a year or two, but a few could be several years away from having a fully functional system. CBO expects that the Secretary will audit states that do not meet the requirement, but that most states will complete their systems during the audit or the following year. CBO estimates that a few large states will remain out of compliance and the Secretary will assess penalties totaling \$250 million: \$50 million in 2001, \$100 million in 2002, and \$100 million in 2003.

The penalties on states could be much higher than the audit penalties if the Secretary disapproves some state plans for child support enforcement. States are only eligible for federal funding of child support administrative costs if they have an approved state plan. As of October 1, 1997, the Secretary is required to disapprove any state plan if the state is not operating a statewide automated system. If a state plan is disapproved, then the state cannot receive any money from the federal government to run its child support program. Also, if a state does not have an approved state plan for child support, it may not receive any funding under TANF.

CBO has assumed, however, that HHS will not disapprove any state plans. A state may appeal the Secretary's notice of her intention to disapprove its state plan through a process that may take many years. The state plan would not be disapproved and funding withheld until all appeals are exhausted. The estimate assumes that all states complete their automated systems before appeals are exhausted so that the Secretary would never need to disapprove a state plan.

H.R. 3130. The bill would give the Secretary an alternative to applying the audit penalties or disapproving state plans. The alternative penalty would rise from 4 percent of child support administrative expenses in the first year of noncompliance to a maximum of 20 percent of expenses for the fourth and all subsequent years of noncompliance. If a state achieves compliance with the automated system requirement during the following year, the Secretary would forgive 75 percent of the previous year's penalty.

While the maximum penalty on states under the bill is lower than the maximum penalty under current law, CBO estimates that slightly higher penalties would be collected under the bill. If all states were assessed the maximum audit penalty, they would be charged \$800 million (\$16.5 billion multiplied by 5 percent). If all states received the maximum alternative penalty under H.R. 3130, they would be charged about \$600 million in 2002 (\$3 billion

multiplied by 20 percent). However, under H.R. 3130, the Secretary could charge penalties sooner because HHS would not have to do a full audit of a state or allow a year for the state to come into compliance. Because penalties would be applied sooner, fewer states would have completed systems when penalties are charged, and more states would pay penalties. CBO estimates that states would pay penalties totaling \$260 million over the 1999-2003 period.

Authority To Waive Statewide Automated System Requirement

H.R. 3130 would allow the federal government to fund alternative configurations of automated systems. Under current law the federal government provides matching dollars only to build a single statewide automated system. The Secretary has the authority to approve alternative configurations of automated systems, but has only limited ability to fund them. An alternative system configuration links various automated systems together so that they operate as a unified statewide system even though the component systems may use different hardware and software. Under HHS regulations, federal matching funding for alternative system configurations is limited to paying for a central database, any linkages, and minor upgrades to component systems that are linked.

H.R. 3130 would allow federal matching funds for alternative configurations, including upgrades to component parts of a linked system. CBO surveyed automated system experts in federal and state governments. The experts did not agree whether an alternative system would be more or less expensive than a single statewide system. Most agreed that it is not possible to determine which is cheaper in the abstract--the relative costs depend on particular elements of the systems being compared. Based on these conversations, CBO estimates that funding of alternative systems would not necessarily cost more or less, in general, than funding single statewide systems.

The only instance in which the new funding would clearly cost the federal government is if a state was committed to building an alternative system under the current law and planned to use state funding for significant upgrades to component systems. If federal funding is made available for alternative configurations, such a state would receive more federal funding than under current law. Only one state, Illinois, has committed to an alternative system configuration and still has significant work remaining to completion. Based on information from the state of Illinois and HHS staff, CBO estimates that Illinois would receive an extra \$5 million in federal funding in each of the fiscal years 1999 and 2000 if H.R. 3130 is enacted.

Incentive Payments

H.R. 3130 would change the funding of incentive payments to states. It would set a guaranteed level for the total amount of incentives to be paid to all states, regardless of states' overall performance in collecting child support payments. Because the bill sets the national level of incentive payments each year equal to CBO's estimate of incentive payments under current law, CBO estimates no budgetary effect from the new incentive payment system.

Under current law, the federal government pays each state a percentage of all of the child support it collects. A state that runs a very cost-effective program earns higher federal incentive payments, but only about half a dozen states have qualified for higher incentives in recent years. In 1997, the federal government paid states \$401 million in incentives. CBO estimates these payments will rise to \$422 million in 2000 and to \$483 million by 2008.

H.R. 3130 would set a national level of incentive payments for each year 2000 through 2008. After 2008 the level of incentive payments would increase with inflation. Each state's share of the total incentive payments would be based on its performance on five measures: paternity establishment, establishment of support orders, collections of current support, collections of past-due support, and cost effectiveness.

Adoption Provisions

Title III of H.R. 3130 would lower the penalties on states that delay adoptions across state lines. Those penalties were added to the federal foster care law as part of H.R. 867, the Adoption and Safe Families Act of 1997. CBO does not expect that any penalties would be imposed as a result of the Adoption and Safe Families Act of 1997, and therefore does not estimate any budgetary effects from weakening these provisions under H.R. 3130.

PAY-AS-YOU-GO CONSIDERATIONS:

The Balanced Budget and Emergency Deficit Control Act of 1985 establishes pay-as-you-go procedures for legislation affecting direct spending or receipts. The projected changes in direct spending are shown in the table below for fiscal years 1999-2008. For purposes of enforcing pay-as-you-go procedures, however, only the effects in the current year, budget year, and the succeeding four years are counted.

Summary of Pay-As-You-Go Effects

	By Fiscal Year, in Millions of Dollars									
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Change in outlays	-100	-60	-40	40	160	0	0	0	0	0
Change in receipts	Not applicable									

ESTIMATED IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS

H.R. 3130 contains no new intergovernmental mandates as defined in UMRA. While the bill would change the penalties that states incur if they fail to comply with child support system requirements, it would not change the underlying requirements. These penalties take the form of reductions in federal assistance to states.

Total penalties paid by states failing to meet those requirements would increase in each year from 1999 through 2001. CBO estimates that additional penalties paid during those years would total \$210 million. We estimate that penalties for noncompliance would be reduced in 2002 and 2003 by \$40 million and \$160 million, respectively. When compared to the current system, the distribution of these penalties among states would change; some states would face larger reductions in federal assistance, while others would face smaller cuts.

The bill would also allow the Secretary of HHS to waive certain statewide computer system requirements when awarding federal assistance for child support administrative costs. As previously noted, CBO estimates that one state, Illinois, would receive an additional \$5 million in each of fiscal years 1999 and 2000 because of this waiver provision.

The bill would also lower penalties for states that delay interjurisdictional adoptions. However, CBO did not estimate any penalty collections under current law, so lowering those penalties would have no budgetary effect on state governments.

ESTIMATED IMPACT ON THE PRIVATE SECTOR

The bill contains no private-sector mandates as defined in the Unfunded Mandates Reform Act of 1995.

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